



SF 512 – Water Quality (LSB1844SZV.1)

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Fiscal Note Version – As amended on House Floor with Amendment S-3887

Description

[Senate File 512](#), as amended by the House with Amendment S-3887, creates new programs to provide funding for water quality projects. One program exempts the sale of water by utilities from sales tax and creates a Water Service Excise Tax on metered water. Moneys from the excise tax will be deposited in the General Fund and are then transferred incrementally to the Water Quality Financial Assistance Fund. One-sixth of the moneys will be transferred from the General Fund in FY 2019. The amount transferred will increase by one-sixth each year until the full amount of the tax is transferred in FY 2024 and after. The tax is repealed on January 1, 2030. The Department of Revenue will administer the collection and transfer of the Water Service Excise Tax. More program information is listed below.

Water Quality Infrastructure Fund. A Water Quality Infrastructure Fund will be administered by the Division of Soil and Water Conservation of the Department of Agriculture and Land Stewardship (DALs). The Division is required to submit an annual report to the Governor and the General Assembly beginning October 1, 2018, that itemizes the expenditures for Hydrologic Unit Code (HUC) 8 watersheds during the previous year.

The Fund will support two types of projects, as detailed in the [Iowa Nutrient Reduction Strategy](#):

- The Edge-of-Field Infrastructure Program supports projects that capture or filter nutrients that can enter surface water. These are long-term projects, and examples include wetlands, bioreactor systems, saturated buffers, and land use changes.
- The In-Field Infrastructure Program supports projects that decrease erosion and surface water runoff. These are long-term projects, and examples include terraces, waterways located on cropland, soil erosion control structures, and managed drainage systems.

The Division can support multiple projects on one location and can combine projects from both Programs. To measure progress toward meeting Iowa Nutrient Reduction Strategy goals, the baseline is calculated using the time period from 1980 to 1995, as in the federal Environmental Protection Agency (EPA) Gulf Hypoxia Action Plan. Refer to the Mississippi River/Gulf of Mexico Watershed Nutrient Task Force [2015 Report to Congress](#) for additional information.

Water Quality Financial Assistance Fund. The Bill creates the Water Quality Financial Assistance Fund in the State Treasury and appropriates moneys from the Water Service Excise Tax to the Fund. Beginning in FY 2019, funds will be appropriated annually as follows:

- One-sixth to the Water Quality Protection and Wastewater Treatment Grant Fund administered by the Iowa Finance Authority (IFA). Funds will be used to award grants to the following:
 - Municipalities or eligible entities that participate in a nutrient reduction exchange.

- Municipalities or eligible entities conducting economic and technical feasibility studies or developing implementation plans and reports required by the Iowa Nutrient Reduction Strategy, for up to 50.0% of associated costs.
- Municipalities conducting source water protection projects.
- Municipalities or eligible entities conducting water infrastructure improvements or wastewater infrastructure improvements.

Grants will not exceed \$500,000 per recipient. By October 1 of every year, the IFA will submit a report to the Governor and General Assembly itemizing all expenditures made in the previous year. Beginning September 1, 2027, and every 10 years after, a Program Review Committee will be created by the members to review the Water Quality Protection and Wastewater Treatment Grant Fund Program. A report will be submitted by the Program Review Committee by December 1 of the same year to summarize the effectiveness of the Program over the past 10 years.

- Five-sixths to the Water Quality Project Financial Assistance Fund. The IFA will cooperate with the DALS and the Department of Natural Resources (DNR) in developing the Fund. Funds will be used to fund water quality projects. Other Fund specifics include the following:
 - The IFA is permitted to use funds to issue bonds or notes until June 30, 2042. The Bill details bonding procedures and exempts the bonds or notes from State income tax.
 - The IFA is also permitted to use funds for loans, forgivable loans, and grants.
 - The IFA will administer and develop rules for the Fund.
 - The IFA is permitted to determine the length of a loan, interest rate, and if other fees will be paid by the loan recipient.
 - Plans or projects reviewed and verified by the Iowa Nutrient Research Center will be given funding preference.
 - Financing entities are permitted to apply for a loan or other financial assistance.
 - The IFA is permitted to use up to 1.0% of the moneys in the Fund for administrative purposes.

County Tax Levy. The Bill revises the allowable annual tax levy by a county board of supervisors, establishing a maximum rate of \$0.0675 per \$1,000 on assessed agricultural land, to be used for projects that control soil erosion, watershed projects, flood prevention projects, and other water quality projects. The maximum levy cap does not change.

Background

Currently, the sale of water by utilities to residential and nonresidential customers is subject to sales tax, as well as to any local option sales tax (LOST). Nonresidential sewage utilities are also subject to sales tax, while residential sewage utilities are not. The State sales tax includes a portion, commonly referred to as the “sixth cent,” that is directed to the Secure an Advanced Vision for Education (SAVE) Program.

The Wastewater Treatment Financial Assistance Program, created in Iowa Code section [16.134](#), is for communities, with priority for disadvantaged communities, seeking to install or upgrade wastewater treatment facilities due to regulatory activity by the DNR. Grant awards are capped at \$500,000. The Program received appropriations from the Rebuild Iowa Infrastructure Fund (RIIF) for the period of FY 2006 to FY 2008 for a total of \$11.0 million.

Assumptions

- The annual sales tax attributable to metered water sales in FY 2015 was estimated by the Department of Revenue at \$20.3 million. This number was then increased using Moody’s

projections of the Consumer Price Index (CPI) inflation index and population estimates from the REMI¹ forecast.

- Items or services exempt from the State sales tax are also exempt from any LOST. The Bill does not provide for a LOST on water services.
- The Bill does not subject the new Water Service Excise Tax to the SAVE transfer.
- The section of the Bill related to the tax becomes effective July 1, 2018 (FY 2018), and the tax is repealed when all bonds, notes, or other debt instruments issued on or before June 30, 2042, are fully paid.
- The Department of Revenue will experience administrative costs related to establishing the collection of the Water Service Excise Tax.

Fiscal Impact

Water Quality Financial Assistance Fund. The estimated flow of funds under current law and as proposed in the Bill is shown in **Table 1** below. General Fund revenue and SAVE dollars will be diverted to the Water Quality Financial Assistance Fund, and the LOST revenues will no longer be collected.

Table 1 - Current Law Sales Tax Policy vs. S-3387 to SF 512									
(In Millions)									
	Current Law				S-3387 to SF 512				
	Estimated Sales of Metered Water	General Fund	SAVE	LOST	General Fund	SAVE	LOST	Water Quality Infrastructure Fund	Water Quality Financial Assistance Fund
FY 2019	\$ 386.5	\$ 19.3	\$ 3.9	\$ 3.4	\$ 15.5	\$ 0.0	\$ 0.0	\$ 3.9	\$ 3.9
FY 2020	398.1	19.9	4.0	3.5	11.9	0.0	0.0	4.0	8.0
FY 2021	408.7	20.4	4.1	3.6	8.2	0.0	0.0	4.1	12.3
FY 2022	419.4	21.0	4.2	3.7	4.2	0.0	0.0	4.2	16.8
FY 2023	431.1	21.6	4.3	3.8	0.0	0.0	0.0	4.3	21.6

The estimated fiscal impact is shown below in **Table 2**.

Table 2 - Net Impact of S-3387 to SF 512					
(In Millions)					
	General Fund	SAVE	LOST	Water Quality Infrastructure Fund	Water Quality Financial Assistance Fund
FY 2019	\$ -3.9	\$ -3.9	\$ -3.4	\$ 3.9	\$ 3.9
FY 2020	-8.0	-4.0	-3.5	4.0	8.0
FY 2021	-12.3	-4.1	-3.6	4.1	12.3
FY 2022	-16.8	-4.2	-3.7	4.2	16.8
FY 2023	-21.6	-4.3	-3.8	4.3	21.6

¹ REMI refers to Regional Economic Models, Inc. See <http://www.remi.com/> for more information.

Once the full amount of the transfer is reached in FY 2023, revenues will increase approximately 2.9% per year until the Water Service Excise Tax is repealed or when the sales tax is increased.

Funds will be appropriated from the Water Quality Financial Assistance Fund as shown below in **Table 3**.

Table 3 - Appropriations from Water Quality Financial Assistance Fund			
	Water Quality Protection and Wastewater Treatment Grant Fund		Water Quality Project Financial Assistance Fund
FY 2019	\$	644,000	\$ 3,220,000
FY 2020		1,327,000	6,635,000
FY 2021		2,043,000	10,216,000
FY 2022		2,795,000	13,979,000
FY 2023		3,592,000	17,963,000

Tax Levy. If the current optional levy was applied statewide, it would raise \$2.1 million, based on the assessment year (AY) 2015 taxed value of all agricultural land in the State.

Other Expenditures. The Department of Revenue estimates expenditures for implementing the Water Service Excise Tax at \$1.1 million for FY 2018. This estimate includes the following:

- \$800,000 for services from the Office of the Chief Information Officer.
- \$200,000 for services from First Data Government Solutions.
- \$58,000 for indirect expenditures by the Department of Revenue.

The DNR estimates that there will be increased expenditures for support and staff who provide technical assistance to the IFA for projects in the Water Quality Protection and Wastewater Treatment Grant Fund Program. These expenditures are listed below in **Table 4**. No funding source has been identified for these expenditures.

Table 4 - Other Expenditures for S-3387 to SF 512						
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Annual Expense FY 2023 - FY 2029
Dept. of Rev. Expenditures	\$1,100,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
DNR Expenditures	0	170,000	232,000	295,000	403,000	478,000
Total Other Expenditures	<u>\$1,100,000</u>	<u>\$170,000</u>	<u>\$232,000</u>	<u>\$295,000</u>	<u>\$403,000</u>	<u>\$478,000</u>
DNR FTE Positions		3.0	3.8	4.6	5.3	6.1

Sources

Department of Natural Resources
Department of Revenue
Iowa Finance Authority
LSA calculations

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
